

Message Text

UNCLASSIFIED

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ACTION EB-07

INFO OCT-01 EA-09 ISO-00 AGRE-00 CIAE-00 COME-00
INR-07 LAB-04 NSAE-00 EPG-02 SP-02 STR-04 TRSE-00
FRB-01 OMB-01 PA-02 PRS-01 USIA-15 AID-05 NSC-05
SS-15 CEA-01 /082 W
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FM AMCONSUL HONG KONG
TO SECSTATE WASHDC 4990

UNCLAS HONG KONG 5865

E.O. 11652: N/A
TAGS: ETRD, HK
SUBJECT: HONG KONG COMMODITY FUTURES MARKET OPENS

1. AFTER MANY MONTHS OF CAREFUL PAINSTAKING PREPARATIONS, THE HONG KONG COMMODITY EXCHANGE OPENED ON MAY 9. PREPARATIONS INCLUDED NUMEROUS DRY RUNS DURING WHICH COMMODITY TRADERS CONCLUDED MOCK CONTRACTS IN ORDER TO GET THE HANG OF THE SYSTEM. ONCE ACTUAL TRADING STARTED, THE ACTIVITY SLOWED MEASURABLY, REFLECTING THE NATURAL CAUTION OF THE MEMBERS WITH REAL MONEY INVOLVED.

2. THROUGH CONVERSATIONS WITH JAMES SELWYN, HONG KONG COMMISSIONER FOR SECURITIES, AND OTHERS ASSOCIATED WITH THE EXCHANGE AS WELL AS A VISIT TO THE EXCHANGE FLOOR, WE LEARNED THAT INITIAL TRADING HAS BEEN VERY SLOW, BUT THIS IS EXPECTED IN THE CASE OF A NEW EXCHANGE. THE CONSENSUS IS THAT IT TAKES TIME FOR POTENTIAL TRADERS TO DEVELOP CONFIDENCE IN A NEW MARKET AND VOLUME BUILDS UP GRADUALLY. ONE CAN GAIN SOME IDEA OF THE CURRENT SCALE BY NOTING THAT 167 CONTRACTS WERE CONCLUDED ON MAY 17 COMPARED TO ROUGHLY 4,000 ON AN AVERAGE DAY AT THE NEW YORK COTTON EXCHANGE. FURTHERMORE, NEW YORK CONTRACTS ARE TWICE THE SIZE OF THOSE USED IN HONG KONG.

3. NEVERTHELESS, MOST LOCAL SOURCES BELIEVE THERE IS EXCELLENT POTENTIAL FOR A COMMODITIES FUTURES EXCHANGE GIVEN THE LARGE UNCLASSIFIED

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NUMBERS OF COTTON CONSUMERS, SPECULATORS, AND FINANCIERS IN HONG KONG. THE LARGE COTTON SPINNERS APPEAR TO HAVE HELD BACK SO FAR, PROBABLY BECAUSE OF THE LACK OF DEPTH IN THE MARKET. OUR SOURCES ARE OPTIMISTIC THAT THEY WILL GRADUALLY COME IN DURING THE COMING MONTHS. IN THE MEANTIME, THEY APPEAR TO BE GOING AHEAD WITH PLANS TO ADD TRADING IN SUGAR SOME TIME LATER THIS YEAR.

CROSS

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